

## Message Text

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ORIGIN EA-14

INFO OCT-01 ISO-00 AGR-20 CIAE-00 COME-00 EB-11 INR-11

LAB-06 NSAE-00 RSC-01 SP-03 STR-08 TRSE-00 SWF-02

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C O N F I D E N T I A L STATE 205637

E.O. 11652: GDS

TAGS: ETRD, HK, JA, KS, RP, TW, TH

SUBJECT: COTTON CONTRACT CRISIS

FOR ECON COUNSELOR AND AGRICULTURAL ATTACHE

1. AS YOU KNOW FROM RECENT VISIT OF COTTON SHIPPERS AND  
MERCHANDISERS, UNITED STATES COTTON INDUSTRY IS VERY  
CONCERNED THAT CURRENT LOWER PRICES FOR RAW COTTON WILL  
SPARK MASS DEFAULTING ON COTTON CONTRACTS NEGOTIATED  
AT PRICES RANGING UP TO 20 CENTS ABOVE PRESENT MARKET.

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STANDARD COMMERCIAL PRACTICE DICTATES THAT COTTON MER-

CHANDISERS HEDGE SUCH CONTRACTS, AND IN CASE OF DEFAULT  
MERCHANDISERS MUST STILL COVER HEDGE AT CONSIDERABLE LOSS.

2. SO FAR ONLY ONE THAI COMPANY, SOMBOON, HAS BEEN  
DELINQUENT IN OPENING LETTERS OF CREDIT (LOC), BUT WHEN  
PRESSED SOMBOON, WHICH WILL ONLY BEGIN OPERATION NEXT YEAR,  
REQUESTED AND WAS GRANTED UNTIL SEPTEMBER 30 TO FIND  
CREDIT NECESSARY TO BACK LOC.

3. MORE IMPORTANT, SITUATION APPEARS TO BE ENTERING  
CRITICAL STAGE DUE REPORTS FROM THAILAND THAT K COTTON  
AND GAUZE COMPANY WILL REFUSE TO OPEN LOC IN OCTOBER FOR  
COTTON SHIPMENTS IN OCTOBER, NOVEMBER AND DECEMBER.  
FURTHER REPORTS INDICATE THAT SAME COMPANY URGING OTHER

THAI TEXTILE MILLS TO JOIN THEM IN REFUSING TO OPEN  
LOC'S.

4. TIME IS SHORT SINCE EVERY EFFORT SHOULD BE MADE TO  
DISCOURAGE CONTRACT DEFAULTS BEFORE THEY OCCUR TO AVOID  
PRECEDENT WHICH COULD SPREAD TO OTHER MILLS AND OTHER  
COUNTRIES.

5. REQUEST YOU VERIFY REPORTS DESCRIBED PARA. 3, AND DIS-  
CUSS PROBLEM ASAP WITH APPROPRIATE HIGH LEVEL THAI  
OFFICIALS. DURING DISCUSSIONS THE FOLLOWING MIGHT BE  
NOTED: FIRST, IN THE PAST TWO CROP YEARS, PRICES HAVE  
RISEN AFTER CONTRACTS WERE MADE. LAST YEAR THE DIFFERENCE  
IN THE CONTRACT PRICE AND THE MARKET PRICE DURING THE  
SHIPPING PERIOD WAS VERY LARGE. NEVERTHELESS, UNITED  
STATES MERCHANDISERS HONORED THEIR CONTRACTS. SECONDLY,  
EVERY EFFORT IS BEING MADE TO OBTAIN INTER-DEPARTMENTAL  
AUTHORITY FOR 10 MILLION DOLLAR CCC CREDIT FOR COTTON.  
IMMEDIATELY UPON APPROVAL, YOU WILL BE NOTIFIED. THIRDLY,  
KOREAN GOVERNMENT, FACED WITH SIMILAR PROBLEMS, IS  
STOCKPILING YARN WHICH GIVES IMPORTING MILLS BETTER  
LIQUIDITY POSITION. FINALLY OTHER MEASURES OF RTG  
ASSISTANCE, TEMPORARY TAX RELIEF, FOR EXAMPLE, MIGHT ALSO  
BE MENTIONED.

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6. WE ARE AWARE RTG POLITICAL/ECONOMIC PROBLEMS INCLUDING  
CURRENT PRODUCTION CRISIS IN TEXTILE INDUSTRY AS RESULT  
OF DROPOFF IN EXPORT DEMAND. WE UNDERSTAND PROBLEM IS  
THORNY ONE, BUT CONCERN IN OUR COTTON INDUSTRY IS ACUTE,  
AND WE BELIEVE, WELL FOUNDED. YOUR ASSESSMENT OF  
SITUATION AS IT DEVELOPS WOULD BE MUCH APPRECIATED. KISSINGER

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